

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF**

Roy H. Barnette

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**DOCKET NO. 2004-353-W/S
LAKE WYLIE COMMUNITY UTILITIES, INC.
APPLICATION FOR RATE INCREASE AND
CHARGES FOR WATER AND SEWER SERVICES**

RETURN DATE: OK D. Duke
SERVICE: OK D. Duke

TESTIMONY OF ROY H. BARNETTE**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2004-353-WS****IN RE: LAKE WYLIE COMMUNITY UTILITIES, INC.**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Roy H. Barnette. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff ("ORS") as an Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.

A. Following a six-year enlistment in the United States Marine Corps, I received a B.S. Degree in Business Administration, with a major in Accounting, from the University of South Carolina in 1968. From 1968 to 1971, I was employed with S.D. Leidesdorf and Company, a national CPA firm in Charlotte, North Carolina. In 1972, I entered the private business sector where I worked for Bagnal Builders Supply Company, Inc., in Columbia, South Carolina, serving as Senior Vice President and Chief Financial Officer from 1972 until September 1999. From September 1999 until December 2004, I was a member of the Audit staff of the South Carolina Public

1 Service Commission where I participated in cases involving gas, water and
2 wastewater companies. In January 2005, I began my employment with ORS.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING LAKE**
4 **WYLIE COMMUNITY UTILITIES, INC.?**

5 A. The purpose of my testimony is to set forth my findings and recommendations
6 resulting from the ORS Staff's review of the application of Lake Wylie Community
7 Utilities, Inc. ("LWCU"), in this docket.

8 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**
9 **TESTIMONY.**

10 A. I have attached the ORS Audit Report related to LWCU's Application for a Rate
11 Increase, Docket No. 2004-353-WS. The contents of the Audit Report were either
12 prepared by me or were prepared under my direction and supervision in compliance
13 with recognized accounting and regulatory procedures for Water and Wastewater
14 utility rate cases.

15 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

16 A. As outlined in the Index of the Audit Report, pages 1-4 contain the analysis of
17 LWCU and its application. The remaining pages consist of exhibits which were
18 prepared to show various aspects of LWCU's operations and financial position. The
19 majority of my testimony will refer to Audit Exhibit A (Combined), Audit Exhibit
20 A/W (Water) and Audit Exhibit A/S (Sewer) - Operating Experience and Operating
21 Margin as shown on pages 5-7 of the Audit Report.

22 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT A (COMBINED).**

1 A. Column (1) shows the combined per book balances of LWCU as of December 31,
2 2003. I verified the per book balances to the books and records of LWCU.

3 Column (2) shows my combined accounting and pro forma adjustments designed to
4 normalize LWCU's per book operations.

5 Column (3) shows my computation of LWCU's combined normalized test year prior
6 to implementing the proposed increase.

7 Column (4) shows ORS's combined adjustments for the proposed rate increase as
8 furnished by the Water/Wastewater Department and the adjustments associated with
9 the additional revenues as explained by ORS's witness, Dawn Hipp.

10 Column (5) shows our computation of the combined normalized test year after
11 accounting and pro forma adjustments, including the proposed rate increase and
12 associated adjustments.

13 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT A/W (WATER)?**

14 A. Column (1) shows the per book balances for the water department of LWCU as of
15 December 31, 2003. I verified the per book balances to the books and records of
16 LWCU.

17 Column (2) shows my accounting and pro forma adjustments designed to normalize
18 LWCU's per book, for water operations.

19 Column (3) shows my computation of LWCU's normalized test year prior to
20 implementing the proposed increase.

Column (4) shows ORS's adjustments for the proposed rate increase as furnished by the Water/Wastewater Department and the adjustments associated with the additional water revenues as explained by ORS witness Dawn Hipp.

Column (5) shows our computation of the normalized test year after accounting and pro forma adjustments, including the proposed rate increase and associated adjustments, for water operations.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT A/S (SEWER)?

A. Column (1) shows the per book balances for the sewer department of LWCU as of December 31, 2003. I verified the per book balances to the books and records of LWCU.

Column (2) shows my accounting and pro forma adjustments designed to normalize LWCU's per book, for sewer operations.

Column (3) shows my computation of LWCU's normalized test year prior to implementing the proposed increase.

Column (4) shows ORS's adjustments for the proposed rate increase as furnished by the Water/Wastewater Department and the adjustments associated with the additional sewer revenues as explained by ORS witness Dawn Hipp.

Column (5) shows our computation of the normalized test year after accounting and pro forma adjustments, including the proposed rate increase and associated adjustments, for sewer operations.

Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT A (COMBINED) - OPERATING EXPERIENCE AND OPERATING MARGIN.

1 A. Column (1) shows the per book operating experience of LWCU. We computed
2 combined Total Income (Loss) for Return of (\$79,196) based on Total Combined
3 Operating Revenues of \$72,514 less Total Combined Operating Expenses of
4 \$151,710. LWCU experienced negative customer growth during the test year. Total
5 Combined Income (Loss) for Return of (\$79,196) and Total Combined Operating
6 Revenues of \$72,514 produced an Operating Margin of (109.21%).

7 In Column (2), our combined accounting and pro forma adjustments are presented to
8 normalize LWCU's test year operations. A description of each adjustment is
9 contained in Audit Exhibit A-1.

10 Column (3) is the sum of Columns (1) and (2) and reflects the As Adjusted figures.
11 The accounting and pro forma adjustments resulted in Total Combined Income
12 (Loss) for Return of (\$74,821). Using Total Income (Loss) for Return of (\$74,821)
13 and Total As Adjusted Operating Revenues of \$68,240, an Operating Margin of
14 (109.64%) was computed.

15 Column (4) shows the effect of the proposed increase as computed by the
16 Water/Wastewater and Audit Departments. These adjustments are detailed in Audit
17 Exhibit A-1.

18 Column (5) shows per book operations as adjusted to normalize the test year and
19 revenues after the proposed increase is added to As Adjusted Revenues. In other
20 words, Column (5) represents per book operations including our proposed
21 adjustments and revenues for LWCU's proposed rate increase. Using Total
22 Operating Combined Revenues of \$226,800 and Total Combined Operating

1 Expenses of \$163,315, I computed a combined Net Operating Income and Total
2 Income for Return of \$63,485. Using the combined Total Income for Return of
3 \$63,485, and combined Operating Revenues of \$226,800, I computed a Combined
4 Operating Margin of 27.99% after the increase proposed by ORS.

5 **Q. PLEASE EXPLAIN AUDIT EXHIBITS A/W (WATER) AND A/S (SEWER).**

6 A. These exhibits show the results for the individual departments, Water and Sewer, that
7 make up the combined results as depicted in Audit Exhibit A (Combined). Each of
8 these schedules is set up exactly as is Audit Exhibit A (Combined) but contains the
9 individual department results after the pro forma adjustments and the adjustments
10 required to reflect the proposed increase. The amounts in each of these schedules
11 were combined to prepare and present the results as shown in the combined exhibit.

12 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT A-1.**

13 A. The adjustments are as follows:

14 Adjustment # 1 – The Water/Wastewater Department proposes no adjustment to the
15 booked water service revenues following a bill frequency analysis for the test year
16 ended December 31, 2003. ORS proposes no adjustment to the As Adjusted
17 revenues. ORS's witness, Dawn Hipp, provided me with the results of her bill
18 frequency analysis, and in her testimony, Ms. Hipp provides an explanation of the
19 procedures used. Therefore, the As Adjusted Service Revenues computed by the
20 Water/Wastewater Department Staff are the same as those previously booked by
21 LWCU. The As Adjusted Revenue as calculated by ORS does not include DHEC
22 Water Charges which are billed by LWCU to its customers and then passed through

1 to DHEC. This amount is equivalent to \$1.25 per customer, per month. See
2 adjustment #1A.

3 Adjustment # 1A - ORS proposes to remove DHEC – Income – Water Fees collected
4 during the test year. This fee is collected from the customers based upon \$1.25 per
5 month per customer and is a pass through to DHEC. LWCU proposes no adjustment.

6 Adjustment # 2 - The Water/Wastewater Department proposes no adjustment to the
7 booked sewer service revenues following a bill frequency analysis for the test year
8 ended December 31, 2003. ORS proposes no adjustment to the As Adjusted
9 revenues. ORS's witness, Dawn Hipp, provided me with the results of her bill
10 frequency analysis, and in her testimony, Ms. Hipp provides an explanation of the
11 procedures used. Therefore, the As Adjusted Service Revenues computed by the
12 Water/Wastewater Department Staff are the same as those previously booked by
13 LWCU.

14 Adjustment # 3 – ORS proposes to reduce O&M Expenses for the Contract Service –
15 Water by (\$323) and Contract Service – Sewer by (\$322) for a total of (\$645) in legal
16 fees, associated with this filing, and reclassify these amounts to G&A Expenses Rate
17 Case Expenses in order to comply with recognized accounting procedures. LWCU
18 proposes no adjustment.

19 Adjustment # 4 – ORS proposes to increase G&A Expense – Rate Case Expenses to
20 reflect a reclassification of legal fees paid during the test year and charged to
21 Contract Service – Water, \$323 and Contract Service – Sewer, \$322, for a total of

1 \$645 as detailed and described in adjustment #3 above. LWCU proposes no
2 adjustment.

3 Adjustment # 5 – ORS proposes to reduce O&M Expenses – Repairs and
4 Maintenance by a total of (\$1,020). This adjustment removes invoices paid to J. G.
5 Environmental, Inc. for services performed outside the test year and reduces the
6 expense in the Water Department by (\$970) and in the Sewer Department by (\$50).

7 LWCU proposes no adjustment.

8 Adjustment # 6 – ORS proposes to reallocate invoices paid to J. G. Environmental,
9 Inc., for Repairs and Maintenance to correctly reflect the distribution of these
10 expenses between the Water and Sewer Departments. These invoices were for
11 services rendered in connection with laboratory analysis for sewer operations and
12 bacteriological sampling and analysis for the water operations. During the year
13 \$6,039 of the laboratory analysis charges for sewer operations was charged to the
14 water department. Therefore, ORS proposes to reduce expenses in the water
15 department by (\$6,039) and increase expenses in the sewer department by \$6,039.

16 LWCU proposes no adjustment.

17 Adjustment # 7 – ORS proposes to reclassify amounts paid for Taxes and License
18 fees on a new 2003 Dodge Ram, purchased in July 2003, from O&M Expenses –
19 Transportation – Water, (\$441) and Transportation – Sewer, (\$441) to Taxes Other
20 Than Income – Water, \$441 and Taxes Other Than Income – Sewer, \$441 in order to
21 comply with recognized accounting procedures. These expenses included Title Fee

1 \$10, Sales Tax \$300, License plate transfer \$13, and York County Property Taxes of
2 \$559 for a total to be allocated of \$882. LWCUC proposes no adjustment.

3 Adjustment # 8 – ORS proposes to increase Taxes Other Than Income – Water
4 \$441 and Taxes Other Than Income – Sewer \$441 to reflect the reclassification of
5 these expenditures as detailed and discussed in adjustment #7, above. LWCUC
6 proposes no adjustment.

7 Adjustment # 9 – ORS proposes to increase O&M Expenses – Chemicals - Sewer
8 \$100 by reclassifying Use Taxes paid during the year, to the state of South Carolina,
9 on chemicals purchased out of the state and used in the wastewater treatment process
10 in order to comply with recognized accounting procedures. When these Use Taxes
11 were paid they were charged on the LWCUC books to Use Tax – Water \$50 and Use
12 Tax – Sewer \$50. See ORS adjustment #10 for removal of these taxes from the Use
13 Tax account. LWCUC proposes no adjustment.

14 Adjustment # 10 – ORS proposes to reclassify and therefore reduce Use Taxes paid
15 during the year from Taxes Other Than Income – Use Tax – Water (\$50) and Taxes
16 Other Than Income – Use Tax – Sewer (\$50) and include the total of \$100 in O&M –
17 Chemicals – Sewer as detailed and discussed in adjustment #9, above. LWCUC
18 proposes no adjustment.

19 Adjustment # 11 – ORS proposes to reclassify and therefore increase Taxes Other
20 Than Income – Water \$323 and Sewer \$323 for the LWCUC's payment of PSC
21 Assessment Fees in order to comply with recognized accounting procedures. When
22 these fees were paid, LWCUC included them in G&A – Regulatory Fees – Water and

1 Regulatory Fees – Sewer. See ORS adjustment #12 for removal of these amounts
2 from G&A – Regulatory Fees – Water and Sewer. LWCUC proposes no adjustment.

3 Adjustment # 12 – ORS proposes to reclassify and therefore reduce G&A
4 Regulatory Fees – Water (\$323) and Regulatory Fees – Sewer (\$323) for LWCUC's
5 payment of PSC Assessment Fees. ORS proposes to include these fees in Taxes
6 Other Than Income. See ORS adjustment #11 for the reclassification of these fees to
7 Taxes Other Than Income.

8 Adjustment # 13 – ORS proposes to reclassify the payment for the National Pollutant
9 Discharge Elimination System (NPDES) permit charged to Regulatory Fees – Water,
10 which should have been charged to Regulatory Fees – Sewer. LWCUC paid the fee of
11 \$800 but inadvertently charged one-half of the payment to the Water department.
12 LWCUC proposes no adjustment..

13 Adjustment # 14 – Both ORS and LWCUC propose to adjust for rate case expenses
14 associated with this filing. For ORS's purposes, these expenses are included in G&A
15 Expenses. ORS's adjustment is comprised of \$2,225 for expenses for accounting
16 services incurred after the test year and \$6,105 for incurred legal expenses, for a total
17 rate case expense of \$8,330. ORS proposes to amortize total rate case expenses of
18 \$8,330 over a 5-year period for a total adjustment of \$1,666, or \$833 for the Water
19 department and \$833 for the Sewer department. ORS examined the time between
20 rate cases as one measure for an amortization period. The last rate proceeding
21 involving the residents of this area in York County was in 1982. That rate proceeding
22 was under the name of Southwood Utilities, Inc., Docket No. 82-66-W/S, Order No.

1 82-456. Since the last rate proceeding was 22 years ago, ORS proposes to use a more
2 reasonable amortization period of 5 years for recovery of rate case expenses. LWCU
3 proposes \$10,000 in rate case expenses to be amortized over a 5 year period for a
4 total adjustment of \$2,000.

5 Adjustment #15 – ORS proposes to increase Taxes Other Than Income to reflect
6 York County property taxes, in the amount of \$1,592, paid on the facility outside the
7 test year. ORS allocated the total taxes of \$1,592 to the Water and Sewer Department
8 based upon each department's percentage of Net Plant to the Total Net Plant (total
9 plant less accumulated depreciation) as reflected on the Balance Sheet included with
10 the application. The Net Plant balances as shown on the Balance Sheet were Water
11 Department \$30,607 and Sewer Department \$23,077. Total Net Plant as shown at
12 December 31, 2003, is \$53,684. Therefore, the proportion of these taxes to be
13 allocated to the Water department is \$30,607 divided by \$53,684 or 57% and the
14 amount to be allocated to the Sewer department is \$23,077 divided by \$53,684 or
15 43%. The proposed allocation of the taxes to the Water Department is \$1,592
16 multiplied by 57% or \$908 and the amount allocated to the Sewer Department is
17 \$1,592 multiplied by 43% or \$684.

18 Adjustment #16 – ORS proposes to reclassify one-half of two payments totaling
19 \$2,160 which were paid to DHEC for the Drinking Water Fees but charged to the
20 Sewer department. Each payment was for \$1,080 all of which should have been
21 charged to the Water department. The adjustment corrects the allocation of the

1 payments by taking one-half of the total payments (\$2,160 divided 2) or \$1,080 and
2 transferring it from the Sewer department to the Water department.

3 Adjustment #17 - ORS proposes to remove Drinking water fees paid to DHEC for
4 and charged to Regulatory Fee – Water, as this fee is a pass through from the
5 customer. During the test year LWCU made four payments to DHEC in the amount
6 of \$1,079.75 each, for a total of \$4,319. LWCU proposes no adjustment.

7 Adjustment #18 – Both ORS and LWCU propose to allocate certain plant in service
8 to the Lake Wylie Mobile Home Community. ORS proposes to reduce the Water and
9 Sewer depreciation expense for plant in service using ORS's recommended
10 depreciation rates. The rates used in the depreciation calculations were provided by
11 the Water/Wastewater department. The vehicles (trucks) used in the calculation of
12 depreciation were allocated 50% to the Lake Wylie Mobile Home Community and
13 50% to LWCU based upon information provided by Mr. John Malpeli. Furthermore,
14 the 50% which was allocated to LWCU was allocated one-half to the Water
15 Department and one-half to the Sewer Department as shown on Audit Exhibit A-2. I
16 first calculated the depreciation on the vehicles (trucks) using useful lives and rates
17 furnished by the Water/Wastewater Department. I determined that the total
18 depreciation for the test year to be \$2,352. I then allocated this amount to the Water
19 and Sewer Departments with each department including \$1,176 in its depreciation
20 expense. I then calculated total depreciation for each department and compared it to
21 the booked amounts. I calculated total depreciation for the Sewer department to be
22 \$4,454 including the allocation of \$1,176 from the vehicles. I then compared this

1 amount, \$4,454, to the booked amount of \$7,408, which results in a reduction in
2 depreciation expense for the Sewer Department of (\$2,954). I then calculated total
3 depreciation for the Water Department of \$3,919 including the allocation of \$1,176
4 from the vehicles. I compared this amount, \$3,919, to the booked amount of \$7,311,
5 which results in a reduction in depreciation expense for the Water Department of
6 (\$3,392). The total reduction in depreciation expense is Sewer (\$2,954) and Water
7 (\$3,392) for a total reduction of (\$6,346).

8 Adjustment #19 - Both ORS and LWCUCU propose to adjust service revenues for the
9 proposed increase. ORS's proposed service revenue adjustment amounts to \$79,280
10 for Water and \$79,280 for Sewer, resulting in a total combined service revenue
11 increase of \$158,560. These increase amounts were provided by the
12 Water/Wastewater Department. LWCUCU proposed service revenue adjustment
13 amounts of \$79,280 for Water and \$79,280 for Sewer for a total combined service
14 revenue increase of \$158,560.

15 Adjustment #20 - ORS proposes to reflect the gross receipts taxes associated with the
16 proposed increase. The gross receipts factor includes cost for administration, the
17 Public Service Commission and the Office of Regulatory Staff. The ORS adjustment
18 is computed using the ORS Proposed Increase Revenues of \$158,560 multiplied by
19 the gross receipts factor of \$0.007733226 resulting in an amount of \$1,226. This
20 amount is allocated to the Water and Sewer Departments with each bearing \$613, of
21 this expense, in Taxes Other Than Income. LWCUCU does not propose an adjustment.

1 Adjustment #21 - ORS proposes to reduce G&A Expenses – Office Expense to
2 remove Christmas gifts given to employees as not allowable for regulatory purposes.
3 Lake Wylie Mobile Home Community included in its expenses \$888 of employee
4 Christmas gifts consisting of \$388 for hams and turkeys and \$250 each to Best Buy
5 and Wolf Camera for gift certificates. Twenty-five (25%), or \$222, of the gift amount
6 was then allocated to LWCU. LWCU proposes no adjustment.

7 Adjustment #22 - ORS proposes to adjust for income taxes associated with the
8 Proposed Increase Revenues. The total income taxes of \$19,028 were allocated to the
9 Water and Sewer departments based upon their net income before income taxes,
10 Water \$40,921 or 49.59% (\$19,028 multiplied by 49.59% = \$9,436) and Sewer
11 \$41,592 or 50.41% (\$19,028 multiplied by 50.41% = \$9,592) . See Audit Exhibit A-
12 3 for the computation of income taxes.

13 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

14 A. Audit Exhibit A-2 shows the Depreciation Expense Adjustment. Audit Exhibit A-3
15 shows the Computation of Income Taxes. Audit Exhibit A-4 shows the Income
16 Statement for the Test Year Ended December 31, 2003. This exhibit does not agree
17 with the Per Book balances shown on Audit Exhibit A. The difference is \$6,718.58
18 which represents items that are considered as below the line items and therefore not
19 considered in the rate making process. Audit Exhibit A-5 shows the Balance Sheet as
20 of December 31, 2003.

1 **Q. DOES THE COMPANY MAINTAIN ITS BOOKS AND RECORDS IN**
2 **ACCORDANCE WITH PUBLIC SERVICE COMMISSION RULES AND**
3 **REGULATIONS?**

4 **A.** No. LWCU does not utilize the NARUC chart of accounts. Also during the year the
5 company did not allocate expenses between the Lake Wylie Mobile Home
6 Community and the LWCU in a timely manner. These expenses were allocated at
7 year end by the company's accountant using certain allocation formulas and/or by
8 journal entries which were difficult to trace through to the books and records of the
9 company.

10 **Q. DOES ORS HAVE ANY RECOMMENDATIONS FOR THE COMPANY?**

11 **A.** Yes. ORS recommends that LWCU maintain its books and records for water and
12 sewer operations in accordance with the NARUC Uniform System of Accounts for
13 Class B Water and Sewer Utilities. In the rate case involving this utility's previous
14 owner, Southwoods Utilities, the Commission ordered Southwoods Utilities to
15 maintain its books and records in accordance with the NARUC Uniform System of
16 Accounts. See Commission Order No. 82-455 (June 29, 1982), Docket No. 82-66-
17 W/S – Application of Southwoods Utilities for approval to operate a water and sewer
18 system and for approval of a schedule of rates and charges for customers in
19 Southwoods Subdivision, York County, South Carolina. Furthermore, 26 S.C. Code
20 Regs. 103-517 and 103-719 require water and sewer utilities to maintain their books
21 and records in accordance with the NARUC System of Accounts. To ORS's

1 knowledge, LWCU has neither sought nor received a waiver of this requirement
2 from the Commission.

3 ORS also strongly recommends that LWCU maintain its books and records
4 completely separate from those of the Lake Wylie Mobile Home Community and
5 that the use of common personnel be documented by maintaining wage and hour log
6 books which specifically state the date, time, length of time spent, a full description
7 of the activity and the facility to be charged. This procedure would make the
8 allocation of the expenses related to the personnel easier to calculate and record on
9 the books of the related entities.

10 ORS recommends that all other LWCU expenses be paid by the utility directly to the
11 vendor or provider of the service and not included with payments made on behalf of
12 the Lake Wylie Mobile Home Community. This will eliminate the need to separate
13 these expenses by journal entry and/or allocations and simplify the record keeping
14 procedures of LWCU.

15 During the audit, the ORS staff found several instances in which expenses related to
16 the Water Department were recorded as expenses of the Sewer Department and
17 expenses related to the Sewer Department were recorded as expenses of the Water
18 Department. It is ORS's recommendation that all invoices be more carefully
19 reviewed to insure proper department allocation.

20 ORS recognizes that both Lake Wylie Mobile Home Community and LWCU have
21 some common ownership, management and common personnel but considers it only

1 good business practice that these businesses be operated as individual business
2 entities and all transactions between them be maintained on an arms-length basis.

3 **Q. WHAT IS THE RESULTING OPERATING MARGIN COMPUTED BY ORS**
4 **IN THIS CASE?**

5 A. Based on the rates proposed by LWCU, the ORS Staff computed an Operating
6 Margin of 27.99%, as computed on Audit Exhibit A.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes, it does.

DIRECT EXHIBITS

OF

ROY H. BARNETTE

**DOCKET NO. 2004-353-WS
LAKE WYLIE COMMUNITY UTILITIES, INC.
APPLICATION FOR RATE INCREASE AND
CHARGES FOR WATER AND SEWER
SERVICES**

**REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF**

DOCKET NO. 2004-353-WS

LAKE WYLIE COMMUNITY UTILITIES, INC.

REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2004-353-WS
LAKE WYLIE COMMUNITY UTILITIES, INC.

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REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2004-353 WS
LAKE WYLIE COMMUNITY UTILITY
SYNOPSIS

Amount Requested

Per Lake Wylie Community Utilities, Inc. --Water-- -----	\$79,280
Per Lake Wylie Community Utilities, Inc. --Sewer-----	\$79,280
Per ORS – Water -----	\$79,280 *
Per ORS-- Sewer-----	\$79,280 *
Percentage Increase – Per ORS-----	250.00%

Operating Margin - Combined

Per Books-----	-109.21%
As Adjusted-----	-109.64%
After Proposed Increase-----	27.99%

*These figures were computed by the Water/Wastewater Department.

REPORT OF THE AUDIT DEPARTMENT
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2004-353 WS
LAKE WYLIE COMMUNITY UTILITIES, INC

ANALYSIS

ORS has made a review of the Application of Lake Wylie Community Utilities, Inc., ("LWCU") along with certain of LWCU's accounting records, relative to its application for authority to increase certain rates and charges as shown in Docket No. 2004-353-WS.

ORS respectfully submits the results of its review as follows:

1. LWCU filed an application on December 8, 2004 for approval of rates and charges for water and wastewater services provided to its residential customers located in the Lake Wylie Mobile Home Park, York County, South Carolina.
2. This matter is set for public hearing on Wednesday, April 27, 2005 at 10:30 a.m.
3. LWCU's principal place of business is 1295 State Line Road, Clover, South Carolina 29710.
4. LWCU is a partnership organized and existing under the laws of the State of South Carolina and is a public utility. LWCU's application utilizes a December 31, 2003 test period.

LWCU is currently operating under Water and Sewer rates and charges approved in the name of Southwoods Utilities dated June 29, 1982.

Date of Order	Effective Date	Docket Number	Amount Requested	Amount Granted	Operating Margin
06/29/82	06/29/82	82-66-W/S	\$10.00	\$10.00	N/A – Water Rate
06/29/82	06/29/82	82-66-W/S	\$10.00	\$10.00	N/A – Sewer Rate

ORS's exhibits related to LWCU's proposed increase are as follows:

AUDIT EXHIBIT A (COMBINED): OPERATING EXPERIENCE AND OPERATING MARGIN

Shown in this exhibit are LWCU's water and sewer operations for the twelve months ended December 31, 2003, with respect to Operating Experience and Operating Margin. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of LWCU's test year operations.

ORS verified the per book balances to the books and records of LWCU. The book figures reflect that Operating Revenues for LWCU totaled \$72,514, including DHEC water charges of \$4,274. Total Operating Expenses amounted to \$151,710 resulting in a Net Operating Income (Loss) of (\$79,196). LWCU experienced negative Customer Growth during the test year. Using Total Income (Loss) for Return of (\$79,196) and Operating Revenues of \$72,514, ORS computed a per book Operating Margin of (109.21%). The net effect of the Accounting and Pro Forma Adjustments increased Total Income for Return from (\$79,196) to (\$74,821), which produces an As Adjusted Operating Margin of (109.64%).

LWCU has requested an increase in rates which would produce additional gross annual revenues of \$158,560. ORS adjusted gross receipts taxes and income taxes associated with the proposed increase.

After the proposed increase, Total Operating Revenues amounted to \$226,800 and Total Operating Expenses amounted to \$163,315, producing Net Operating Income for Return of \$63,485. Using Total Income for Return of \$63,485 and Operating Revenues of \$226,800, ORS computed an Operating Margin of 27.99% after the proposed increase.

AUDIT EXHIBITS A/W AND A/S: OPERATING EXPERIENCE AND OPERATING MARGIN FOR THE LWCUC's WATER AND SEWER DEPARTMENT

Shown in these exhibits are the results of for the individual departments, water and sewer, that make up the combined results as depicted in Audit Exhibit A (Combined). Each of these exhibits is formatted exactly as is Audit Exhibit A (Combined) but contain the individual department results after the pro forma adjustments and the adjustments required to reflect the proposed increase. The amounts in each of these exhibits were combined to prepare and present the results as shown in the combined exhibit. The ORS Staff computed Operating Margins of 27.76% for the water department and 28.22% for the sewer department, after the effect of the proposed increases.

AUDIT EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS

Shown in this exhibit are the details of each accounting and pro forma adjustment necessary to correct or normalize LWCUC's water and sewer operations and to reflect the proposed increase. For comparative purposes, LWCUC's and ORS's adjustments are both presented in this exhibit.

AUDIT EXHIBIT A-2: DEPRECIATION EXPENSE ADJUSTMENT

Shown in this exhibit is ORS's computation of the Depreciation Expense adjustment. ORS annualized Depreciation Expense using rates supplied by the ORS Water/Wastewater Department and allocated certain plant to Lake Wylie Mobile Home Community, an entity with common ownership.

AUDIT EXHIBIT A-3: COMPUTATION OF INCOME TAXES

Shown in this exhibit are the computations of corporate state and federal income taxes. ORS

used the state tax rate of 5% and federal tax rates of 15%, 25% and 34% on the After the Proposed Increase Income.

**AUDIT EXHIBIT A-4: INCOME STATEMENT FOR THE TEST YEAR ENDED
DECEMBER 31, 2003**

LWCU's Income Statement for the test year ending December 31, 2003 is reflected in this exhibit. ORS verified all balances contained in this statement to the books and records of LWCU.

AUDIT EXHIBIT A-5: BALANCE SHEET – AS OF DECEMBER 31, 2003

Shown in this exhibit is the Balance Sheet of LWCU as of the end of the test year. ORS verified the balances contained in this statement to the books and records of LWCU.

LAKE WYLIE COMMUNITY UTILITIES, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN - COMBINED
FOR THE TEST YEAR ENDED DECEMBER 31, 2003

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues</u>					
Water Charges	34,120	(A)	34,120	79,280 (G)	113,400
DHEC Income - Water	4,274	(4,274) (A)	0	0	0
Sewer Charges	34,120	(A)	34,120	79,280 (G)	113,400
<u>Total Operating Revenues</u>	72,514	(4,274)	68,240	158,560	226,800
Operating & Maintenance Expenses	60,062	(2,447) (B)	57,615		57,615
General & Administrative Expenses	76,830	(2,876) (C)	73,954		73,954
Depreciation & Amortization Expense	(1) 14,719	(6,346) (D)	8,373		8,373
Taxes Other Than Income	(2) 99	3,020 (E)	3,119	1,226 (H)	4,345
Income Taxes	(3)	(F)	0	19,028 (I)	19,028
<u>Total Operating Expenses</u>	151,710	(8,649)	143,061	20,254	163,315
<u>Net Operating Income (Loss)</u>	(79,196)	4,375	(74,821)	138,306	63,485
<u>Total Income (Loss) For Return</u>	(79,196)	4,375	(74,821)	138,306	63,485
<u>Operating Margin</u>	-109.21%		-109.64%		27.99%
<u>Interest Expense for Operating Margin</u>	0		0		0

Notes:

- (1) The computation of Depreciation Expense Adjustment is shown on Audit Exhibit A-2.
(2) For purposes of presentation, this amount includes a rounding difference of less than \$1.
(3) Computation of Income Taxes is shown on Audit Exhibit A-3.

LAKE WYLIE COMMUNITY UTILITIES, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN - WATER
FOR THE TEST YEAR ENDED DECEMBER 31, 2003

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues</u>					
Water Charges	34,120	(A)	34,120	79,280 (G)	113,400
DHEC Income	4,274	(4,274) (A)	0	0	0
<u>Total Operating Revenues</u>	38,394	(4,274)	34,120	79,280	113,400
Operating & Maintenance Expenses	37,456	(7,773) (B)	29,683		29,683
General & Administrative Expenses	39,510	(2,917) (C)	36,593		36,593
Depreciation & Amortization Expense (1)	7,311	(3,392) (D)	3,919		3,919
Taxes Other Than Income (2)	50	1,622 (E)	1,672	613 (H)	2,285
Income Taxes (3)		(F)		9,436 (I)	9,436
<u>Total Operating Expenses</u>	84,326	(12,460)	71,866	10,049	81,915
<u>Net Operating Income (Loss)</u>	(45,932)	8,186	(37,746)	69,231	31,485
Customer Growth					
<u>Total Income (Loss) For Return</u>	(45,932)	8,186	(37,746)	69,231	31,485
<u>Operating Margin</u>	<u>-119.63%</u>		<u>-110.63%</u>		<u>27.76%</u>
<u>Interest Expense for Operating Margin</u>	<u>0</u>		<u>0</u>		<u>0</u>

Notes:

- (1) The computation of Depreciation Expense Adjustment is shown on Audit Exhibit A-2.
(2) For purposes of presentation this amount includes a rounding difference of less than \$1.
(3) Computation of Income Taxes is shown on Audit Exhibit A-3.

LAKE WYLIE COMMUNITY UTILITIES, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN - SEWER
FOR THE TEST YEAR ENDED DECEMBER 31, 2003

Description	(1) Per Books	(2) Accounting & Pro Forma Adjustments	(3) As Adjusted	(4) Effect of Proposed Increase	(5) After Proposed Increase
	\$	\$	\$	\$	\$
<u>Operating Revenues</u>					
Sewer Charges	34,120	(A)	34,120	79,280 (G)	113,400
<u>Total Operating Revenues</u>	34,120	0	34,120	79,280	113,400
Operating & Maintenance Expenses	22,606	5,326 (B)	27,932		27,932
General & Administrative Expenses	37,320	41 (C)	37,361		37,361
Depreciation & Amortization Expense (1)	7,408	(2,954) (D)	4,454		4,454
Taxes Other Than Income (2)	50	1,398 (E)	1,448	613 (H)	2,061
Income Taxes (3)		0 (F)		9,592 (I)	9,592
<u>Total Operating Expenses</u>	67,384	3,811	71,195	10,205	81,400
<u>Net Operating Income (Loss)</u>	(33,264)	(3,811)	(37,075)	69,075	32,000
Customer Growth					
<u>Total Income (Loss) For Return</u>	(33,264)	(3,811)	(37,075)	69,075	32,000
<u>Operating Margin</u>	<u>-97.49%</u>		<u>-108.66%</u>		<u>28.22%</u>
<u>Interest Expense for Operating Margin</u>	<u>0</u>		<u>0</u>		<u>0</u>

Notes:

- (1) The computation of Depreciation Expense Adjustment is shown on Audit Exhibit A-2.
(2) For purposes of presentation this amount includes a rounding difference of less than \$1.
(3) Computation of Income Taxes is shown on Audit Exhibit A-3.

AUDIT EXHIBIT A-1

LAKE WYLIE COMMUNITY UTILITIES, INC.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2003

	Water \$	Sewer \$	Combined \$
ACCOUNTING AND PRO FORMA ADJUSTMENTS			
A. OPERATING REVENUES			
1 ORS proposes no adjustments to water revenues for the test year. (W/W)			
Per ORS	0	0	0
Per LWCU	0	0	0
1A ORS proposes to remove DHEC - Income - Water from revenue as this is a pass through fee. (Au)			
Per ORS	(4,274)	0	(4,274)
Per LWCU	0	0	0
2 ORS proposes no adjustments to sewer revenues for the test year. (W/W)			
Per ORS	0	0	0
Per LWCU	0	0	0
Total Operating Revenues	<u>(4,274)</u>	<u>0</u>	<u>(4,274)</u>
B. OPERATIONS AND MAINTENANCE EXPENSE:			
3 ORS proposes to reduce the Contract-Service-Water (\$323) and Sewer (\$322) for a total of (\$645) to reclassify legal fees, associated with this filing, and to charge them to G & A Expenses - Rate Case Expenses. (See Adj. #4). (Au)			
Per ORS	(323)	(322)	(645)
Per LWCU	0	0	0
5 ORS proposes to reduce Repairs and Maintenance Expenses by a total of (\$1020), Water (\$970) and Sewer (\$50) to remove invoices paid to J. G Environmental, Inc. for services rendered outside the test year. (Au).			
Per ORS	(970)	(50)	(1,020)
Per LWCU	0	0	0

AUDIT EXHIBIT A-1

LAKE WYLIE COMMUNITY UTILITIES, INC.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2003

	Water \$	Sewer \$	Combined \$
6 ORS proposes to reallocate invoices paid to J. G. Environmental, Inc., for Repairs and Maintenance to correctly reflect the distribution of these expenses between the Water and Sewer Departments. (Au)			
Per ORS	(6,039)	6,039	0
Per LWCU	0	0	0
7 ORS proposes to reclassify amounts paid for Taxes and License fees on the 2003 Dodge Ram from Transportation - Water, (\$441) and Transportation - Sewer, (\$441) to Taxes Other Than Income - Water and Taxes Other Than Income - Sewer. (See Adj. #8). (Au)			
Per ORS	(441)	(441)	(882)
Per LWCU	0	0	0
9 ORS proposes to reclassify Use taxes paid during the year from Taxes Other Than Income, Use Tax - Water, (\$50) and Taxes Other Than Income, Use Tax - Sewer, (\$50) to O&M - Chemicals, \$100. (See Adj #10). (Au)			
Per ORS	0	100	100
Per LWCU	0	0	0
Total Operations and Maintenance Expense	(7,773)	5,326	(2,447)

C. GENERAL AND ADMINISTRATIVE EXPENSE:

4 ORS proposes to increase G&A Expenses - Rate Case Expenses to reflect a reclassification of legal fees paid during the test year and charged to Contract-Service-Water \$323 and Contract-Service-Sewer, \$322, for a total of \$645. (See Adj. #3). (Au)			
Per ORS	323	322	645
Per LWCU	0	0	0
12 ORS proposes to reclassify PSC Assessments from Regulatory Fees-Water,(\$323) and Regulatory Fees-Sewer, (\$323) to Taxes Other Than Income-Water, \$323 and Taxes Other Than Income-Sewer, \$323.(See Adj. #11) (Au)			
Per ORS	(323)	(323)	(646)
Per LWCU	0	0	0

AUDIT EXHIBIT A-1

LAKE WYLIE COMMUNITY UTILITIES, INC.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2003

	Water \$	Sewer \$	Combined \$
13 ORS proposes to reclassify payment for NPDES permit charged to Regulatory Fees Water and should have been charged to Regulatory fees - Sewer. LWCU proposes no adjustment. (Au)			
Per ORS	(400)	400	0
Per LWCU	0	0	0
14 ORS proposes to amortize Rate Case Expenses of \$1,666 per year for five years, of which \$833 is charged to Water and \$833 is charged to Sewer. LWCU proposes to amortize Rate Case Expenses of \$2,000 per year for five years.(Au)			
Per ORS	833	833	1,666
Per LWCU	0	0	2,000
16 ORS proposes to reclassify payments of \$1,080 made to DHEC for the Drinking water quarterly payments that were inadvertently charged to Regulatory Fees -Sewer. (Au)			
Per ORS	1,080	(1,080)	0
Per LWCU	0	0	0
17 ORS proposes to remove Regulatory Fees paid to DHEC in the amount of 4 quarterly payments of \$1,079.75 as this is a pass through charge. LWCU proposes no adjustment. (Au)			
Per ORS	(4,319)	0	(4,319)
Per LWCU	0	0	0
21 ORS proposes to reduce G&A Expense - Office Expense to remove Christmas gifts given to employees. The total amount of these gifts was \$888, of which 25% or \$222 was allocated to LWCU. (Au)			
Per ORS	(111)	(111)	(222)
Per LWCU	0	0	0
Total General and Administrative Expense	(2,917)	41	(2,876)

AUDIT EXHIBIT A-1

LAKE WYLIE COMMUNITY UTILITIES, INC.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2003

	Water \$	Sewer \$	Combined \$
D. DEPRECIATION AND AMORTIZATION EXPENSE:			
18 ORS proposes to adjust the Water and Sewer depreciation expense for plant in service using ORS recommended depreciation rates. ORS and LWCU propose to allocate certain plant in service to Lake Wylie Mobile Home Community. (W/W)			
Per ORS	(3,392)	(2,954)	(6,346)
Per LWCU	7,311	7,408	14,719
<u>Total Depreciation and Amortization Expense</u>	<u>(3,392)</u>	<u>(2,954)</u>	<u>(6,346)</u>
E. TAXES OTHER THAN INCOME:			
8 ORS proposes to reclassify amounts paid for Taxes and License fees on the 2003 Dodge Ram from Transportation - Water, and Transportation - Sewer, to Taxes Other Than Income - Water, \$441, and Taxes Other Than Income - Sewer, \$441. (See Adj. #7). (Au)			
Per ORS	441	441	882
Per LWCU	0	0	0
10 ORS proposes to reclassify Use taxes paid during the year from Taxes Other Than Income, Use Tax - Water, (\$50) and Taxes Other Than Income, Use Tax - Sewer, (\$50) to O&M - Chemicals, \$100. (See Adj #9). (Au)			
Per ORS	(50)	(50)	(100)
Per LWCU	0	0	0
11 ORS proposes to reclassify PSC Assessments from Regulatory Fees-Water,(\$323) and Regularory Fees-Sewer, (\$323) to Taxes Other Than Income-Water, \$323 and Taxes Other Than Income-Sewer, \$323. (See Adj. #12) (Au)			
Per ORS	323	323	646
Per LWCU	0	0	0

AUDIT EXHIBIT A-1

LAKE WYLIE COMMUNITY UTILITIES, INC.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2003

	Water \$	Sewer \$	Combined \$
15 ORS proposes to adjust Taxes Other Than Income for property taxes paid outside the test year of \$1,592. These property taxes were allocated to the Water Department, 57% and Sewer Department, 43%, based upon the Net Asset Values of each as compared to the Total Net Asset Values of the departments. (Au)			
Per ORS	908	684	1,592
Per LWCUC	0	0	0
Total Taxes Other Than Income	1,622	1,398	3,020

F. INCOME TAXES

Since the As Adjusted reflects a negative Total Income for Return, neither ORS or LWCUC calculated income taxes.

Per ORS	0	0	0
Per Company	0	0	0
Total Income Taxes	0	0	0

ADJUSTMENTS FOR EFFECT OF PROPOSED INCREASE (TO \$35.00)

G. PROPOSED REVENUES

19 ORS and LWCUC propose to adjust revenues for the proposed increase. (W/W)

Per ORS	79,280	79,280	158,560
Per LWCUC	79,280	79,280	158,560
Total Proposed Revenue Adjustments	79,280	79,280	158,560

H. TAXES OTHER THAN INCOME

20 ORS proposes to reflect the gross receipts taxes associated with the Proposed Increased Revenues. (Au)

Per ORS	613	613	1226
Per LWCUC	0	0	0
Total Taxes Other Than Income	613	613	1226

AUDIT EXHIBIT A-1

LAKE WYLIE COMMUNITY UTILITIES, INC.
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
	\$	\$	\$
I. INCOME TAXES			
22 ORS proposes to adjust income taxes associated with the Proposed Increase Revenues. (Au)			
Per ORS	9,436	9,592	19,028
Per LWCU	0	0	19,925
Total Income Taxes	<u>9,436</u>	<u>9,592</u>	<u>19,028</u>

Note: (Au) - ORS Audit Department
(W/W) - ORS Water/Wastewater Department

LAKE WYLIE COMMUNITY UTILITIES, INC.
DEPRECIATION EXPENSE ADJUSTMENT
FOR THE TEST YEAR ENDED DECEMBER 31, 2003

VEHICLES

Date Acquired	Description	(A) Amount	Allocation of Equipment	Allocated Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	%	\$	years	%	\$	\$
Jun-94	Dump Truck	2,000	50%	1,000	FD	FD	-	1,000
Jun-01	Ford Pickup	30,804	50%	15,402	6	16.67%	2,568	7,704
Jul-03	Dodge Ram	28,221	50%	14,111	6	16.67%	2,352	2,352
Jul-03	Ford Pickup (Trade-in)	(30,804)	50%	(15,402)	Traded	Traded	(2,568)	(7,704)
	Totals	<u>30,221</u>		<u>15,111</u>			<u>2,352</u>	<u>3,356</u>
				Less allocated to Sewer			(1,176)	(1)
				Less allocated to Water			(1,176)	(2)
							<u>0</u>	

SEWER

Date Acquired	Description	Amount	Allocation of Equipment	Allocated Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	%	\$	years	%	\$	\$
Jan-84	Mains & Collecting System Equipment	84,586	100%	84,586	27	3.70%	3,130	62,601
Jul-96	Mains	1,800	100%	1,800	40	2.50%	45	345
Jul-00	Electric Snake	1,031	100%	1,031	10	10.00%	103	418
	Vehicle Allocation - From Above						1,176	(1)
	Totals	<u>87,417</u>		<u>87,417</u>			<u>4,454</u>	<u>63,372</u>
				Less: Per Book Depreciation Expense			(7,408)	
				Depreciation Expense Adjustment			<u>(2,954)</u>	

WATER

Date Acquired	Description	Amount	Allocation of Equipment	Allocated Amount	Service Life	Depr. Rate	Depr. Expense	Accum. Depreciation
		\$	%	\$	years	%	\$	\$
Jan-84	Mains & Well	43,822	100%	43,822	27	3.70%	1,621	32,421
Dec-92	Mains	40,870	100%	40,870	38	2.63%	1,075	12,900
Jul-96	Mains	1,800	100%	1,800	38	2.63%	47	376
	Vehicle Allocation - From Above						1,176	(2)
	Totals	<u>86,492</u>		<u>86,492</u>			<u>3,919</u>	<u>45,693</u>
				Less: Per Book Depreciation Expense			(7,311)	
				Depreciation Expense Adjustment			<u>(3,392)</u>	
	Total Plant and Equipment In Service	<u>204,130</u>		<u>189,020</u>			<u>8,373</u>	<u>112,420</u>

FD = Fully Depreciated

(A) = 50% is allocated to LWMHC and 50% is allocated to LWCU

AUDIT EXHIBIT A-3

LAKE WYLIE COMMUNITY UTILITIES, INC
COMPUTATION OF INCOME TAXES
FOR THE TEST YEAR ENDED DECEMBER 31, 2003

	As Adjusted Revenue	After Proposed Increase
	<u> </u>	<u> </u>
	\$	\$
Operating Revenues	68,240	226,800
Less: Operating Expenses	143,061	144,287
Less: Interest Expenses	<u>0</u>	<u>0</u>
Taxable Income	(74,821)	82,513
State Tax Rate	<u>5%</u>	<u>5%</u>
State Taxes	0	4,126
Federal Taxable Income	0	78,387
1st \$50,000 @ 15%	0	7,500
Next \$25,000 @ 25%	0	6,250
Next \$25,000 at 34%	0	1,152
Remaining Balance at 39%	<u>0</u>	<u>0</u>
Federal Income Taxes	0	14,902
Total State & Federal Income Taxes	<u>0</u>	<u>19,028</u>
Less: Per Book and As Adjusted Income Taxes	<u>0</u>	<u>-</u>
Net Income Tax Adjustment	<u>0</u>	<u>19,028</u>

LAKE WYLIE COMMUNITY UTILITIES, INC.
INCOME STATEMENT
FOR THE TEST YEAR ENDED DECEMBER 31, 2003

Operating Revenue	\$
Water Charges	34,120.00
DHEC Income	4,274.00
Sewer Charges	34,120.00
Total Income	<u>72,514.00</u>
Cost of Sales	<u>0.00</u>
Total Revenue	<u>72,514.00</u>
 Operating and Non-Cash Expenses	
Operating Expenses	
Regulatory Fees - water	3,992.52
Use Tax	49.63
Purchased Power - water	7,776.50
Contract - Accounting - water	2,768.75
Contract - Management - water	19,500.00
Contract Service - water	322.63
Contract Service - Direct Labor - water	10,359.92
Contract Service - Office Labor - water	10,240.54
Repairs and Maintenance - water	14,988.58
Transportation - water	1,086.44
Insurance - Auto - water	103.75
Insurance - Liability - water	2,817.96
Office - water	3,007.81
Regulatory Fees - sewer	1,802.99
Use Tax - sewer	49.63
Purchased Power - sewer	4,771.50
Contract - Accounting - sewer	2,768.75
Contract - Management - sewer	19,500.00
Contract Service - sewer	322.63
Contract Service - Direct Labor - sewer	10,359.92
Contract Service - Office Labor - sewer	10,240.54
Repairs and Maintenance - sewer	1,945.19
Transportation - sewer	1,086.45
Insurance - Auto - sewer	103.75
Insurance - Liability - sewer	2,817.96
Office - sewer	3,007.81
Chemicals - Other	1,198.48
Total Operating Expenses	<u>136,990.63</u>
Non-Cash Expenses	
Depreciation - water equipment	7,310.57
Depreciation - sewer equipment	7,408.37
Total Non-Cash Expenses	<u>14,718.94</u>
Total Operating and Non-Cash Expenses	<u>151,709.57</u>
 Net Income (Loss from Operations)	 (79,195.57)
 Other Expenses	
Penalties	6.00
Interest Expense - water	29.72
Loss on disposal of fixed asset - water	3,326.57
Interest Expense - sewer	29.73
Loss on disposal of fixed asset - sewer	3,326.56
Total Other Expenses	<u>6,718.58</u>
 Net Income (Loss)- Per Books	 <u>(85,914.15)</u>

LAKE WYLIE COMMUNITY UTILITIES, INC.
BALANCE SHEET
FOR TEST YEAR ENDED DECEMBER 31, 2003

ASSETS

Current Assets	\$	\$	\$
Cash in the bank - Clover Bank			33.30
Fixed Assets			
Auto and Truck	30,221.20		
Less: Accumulated Depreciation	(4,927.58)	25,293.62	
Water Equipment	86,492.00		
Less: Accumulated Depreciation	(55,884.60)	30,607.40	
Sewer Equipment	87,416.95		
Less: Accumulated Depreciation	(64,340.15)	23,076.80	78,977.82
Other Assets			0.00
Total Assets			<u>79,011.12</u>

LIABILITIES

Current Liabilities			
Accounts Payable - Trade		1,455.00	
Note Payable - Truck		<u>31,353.78</u>	32,808.78
Other Liabilities			0.00
Total Liabilities			32,808.78

EQUITY

Capital Stock		10,000.00	
Paid in Surplus		<u>36,202.34</u>	46,202.34
Total Liabilities and Equity			<u>79,011.12</u>